

Message Text

UNCLASSIFIED

PAGE 01 LONDON 07499 01 OF 02 161843Z

66

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /106 W

----- 060501

R 161828Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1205

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 07499

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 16

BEGIN SUMMARY: THE CONTINUED WEAKENING TRENDS IN THE
BRITISH ECONOMY, AND PARTICULARLY THE ACCELERATING WAGE-

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 07499 01 OF 02 161843Z

PUSH INFLATION, PUSHED STERLING TO A RECORD LOW DEPRECIA-

TION THIS WEEK, DESPITE BETTER-THAN-EXPECTED TRADE FIGURES. ONLY PRICES ARE UP; CONFIDENCE, OUTPUT, DEMAND, AND STERLING ARE ALL DOWN. END SUMMARY

1. STERLING WEAKENS. STRONG DOWNWARD PRESSURE ON STERLING FORCED THE BANK OF ENGLAND TO "AGGRESSIVELY SUPPORT" THE POUND ACCORDING TO PRESS REPORTS. AS THE TRADE-WEIGHTED DEPRECIATION PLUNGED DOWNWARD DURING THE WEEK, IT IS REPORTED THAT THE BANK OF ENGLAND INJECTED ABOUT \$200 MILLION INTO THE MARKET ON TUESDAY (MAY 13) IN ORDER TO PREVENT THE POUND FROM FALLING BELOW ITS RECORD LOW OF 25.2 PERCENT. MARKET SOURCES INDICATE THAT THIS IS THE FIRST EVIDENCE OF A MASSIVE SUPPORTIVE OPERATION IN RECENT WEEKS, AFTER WITNESSING A PATTERN OF OFFICIAL SMOOTHING OF MARKET FLUCTUATIONS BUT NOT SUPPORT. CONTINUING UNCERTAINTY OVER BRITAIN'S ABILITY TO BRING THE RATE OF INFLATION UNDER CONTROL APPEARS TO BE A KEY CONTRIBUTORY FACTOR. EXCHANGE MARKETS CONTINUE TO REPORT LIGHT TO MODERATE TRADING AS THE DOWNWARD SLIDE CONTINUES.

2. THE APRIL TRADE FIGURES RELEASED THIS WEEK SHOWED A NOT UNEXPECTED WIDENING OF THE DEFICIT COMPARED TO LAST MONTH'S LEVEL. HOWEVER, THE DETERIORATION WAS NOT AS GREAT AS HAD BEEN ANTICIPATED. TAKING THE THREE MONTH PERIOD (TO SMOOTH OUT THE DISTORTIONS CAUSED BY THE LONDON DOCK STRIKE) FEBRUARY TO APRIL, THE CURRENT ACCOUNT DEFICIT WAS 337 MILLION POUNDS COMPARED TO 862 MILLION POUNDS IN THE PREVIOUS THREE MONTH PERIOD. SEE LONDON 7327 FOR DETAILS.

3. WHOLESALE PRICES. THE INDEX OF WHOLESALE OUTPUT PRICES (DOMESTIC GOODS, EX-FACTORY) FOR APRIL PROVISIONALLY SHOWED A RISE OF 1.7 PERCENT FROM 179.0 IN MARCH TO 182.0 IN APRIL. 1970 EQUALS 100. THE INDEX NOW STANDS AT 24.3 PERCENT HIGHER THAN A YEAR AGO, BUT IN THE PAST 3 MONTHS THE INDEX HAS RISEN AT AN ANNUAL RATE OF 22.8 PERCENT. THE WHOLESALE INPUT PRICE INDEX (RAW MATERIALS, FUELS, AND FRESH FOODS) ROSE FROM 221.8 IN MARCH TO 223.0 IN APRIL, AN INCREASE OF 0.5 PERCENT. THIS INDEX HAS BEEN RISING VERY SLOWLY IN THE PAST SIX MONTHS AND IS NOW UP UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 07499 01 OF 02 161843Z

ONLY 3.7 PERCENT OVER THE PAST 12 MONTHS.

4. INDUSTRIAL PRODUCTION. THE INDEX OF INDUSTRIAL PRODUCTION FELL BY 0.9 PERCENT IN MARCH, FROM 105.5 IN FEBRUARY TO 104.6 IN MARCH (1970 EQUALS 100 - SEASONALLY ADJUSTED). THE FIRST QUARTER FIGURE IS 105 (FORECASTERS: SEE LONDON 6734 AND TAKE NOTE), A FALL FROM 105.4 IN THE FOURTH QUARTER OF 1974. THE PRODUCTION INDEX OF MANUFACTURING

INDUSTRIES FELL FROM 107.3 IN FEBRUARY TO 105.1 IN MARCH, A DECLINE OF 2.1 PERCENT. FOR THE QUARTER, HOWEVER, THIS INDEX STANDS SLIGHTLY HIGHER THAN THE FOURTH QUARTER OF 1974 WHICH WAS AFFECTED BY A FALL IN OUTPUT BOTH BECAUSE A NEW SEASONAL PATTERN OF LONGER HOLIDAYS (THE SEASONAL ADJUSTMENT FORMULA IS NOT YET WORKED OUT) AND BECAUSE OF RECESSIONARY FACTORS ACTING ON BUSINESS DURING THAT PERIOD. ALL FIGURES ARE PROVISIONAL AND LIKELY TO BE REVISED.

5. BUSINESS CONFIDENCE. THE QUARTERLY INDUSTRIAL TRENDS SURVEY OF THE CONFEDERATION OF BRITISH INDUSTRY (CBI) INDICATES THAT BUSINESS CONFIDENCE REMAINS VERY LOW. HOW-

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 07499 02 OF 02 161918Z

66

ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /106 W

----- 061089

R 161828Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1206

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH
 USMISSION EC BRUSSELS
 USMISSION OECD PARIS
 USDOC WASHDC

UNCLAS SECTION 02 OF 02 LONDON 07499

EVER, THE FALL IN SUCH CONFIDENCE APPEARS TO HAVE
 "BOTTOMED OUT." THE SURVEY ALSO INDICATES THAT NEW ORDERS
 AND OUTPUT ARE FALLING SHARPLY, AND MOST COMPANIES WILL
 INVEST LESS IN THE NEXT 12 MONTHS THAN IN THE PAST YEAR.
 MOST RESPONDENTS ALSO INTEND REDUCING THEIR LABOR FORCE,
 BUT IT APPEARS THAT THE FINANCIAL POSITION OF COMPANIES
 UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 07499 02 OF 02 161918Z

AS A WHOLE HAS IMPROVED. BUSINESSMEN ARE ALSO LESS CON-
 FIDENT OF THEIR FUTURE EXPORT COMPETITIVENESS.

6. RETAIL SALES. REVISED FIGURES FOR RETAIL SALES INDI-
 CATE A LARGE DROP FOR MARCH. THE INDEX NUMBER OF RETAIL
 SALES FOR MARCH IS NOW 109.4 AS COMPARED WITH 112.3 IN
 FEBRUARY. THIS IS A DECLINE OF 2.6 PERCENT. THIS GIVES A
 FIRST QUARTER NUMBER OF 111.5 WHICH IS ALMOST IDENTICAL
 WITH FOURTH QUARTER 1974 NUMBER OF 111.6 (1970 EQUALS 100)

7. INSTALLMENT CREDIT. THE AMOUNT OF HIRE PURCHASE AND
 RETAILER INSTALLMENT CREDIT FELL IN MARCH BY 9 MILLION
 POUNDS, BUT THE AVERAGE FIRST QUARTER FIGURE IS UP BY 6
 PERCENT OVER THE FOURTH QUARTER OF 1974.

8. EXCHANGE RATE AND GOLD:

	5/8	5/15	CHANGE
EXCHANGE RATE	\$2.3415	\$2.3015	DOWN \$0.0400
EFFECTIVE DEPRECIATION			
(PERCENT)	23.8	24.8	WIDENED 1.0
GOLD	\$166.75	\$166.00	DOWN \$0.75

9. FORWARD DISCOUNT ON STERLING:

	5/8	5/15	CHANGE
1 MONTH	1.23	1.20	DOWN 0.03
3 MONTHS	3.60	3.60	UNCHANGED
6 MONTHS	6.75	6.90	UP 0.15

(ALL FIGURES IN CENTS)

10. EURODOLLAR INTEREST RATES:

	5/8	5/15	CHANGE
1 MONTH	5-9/16	5-1/2	DOWN 1/16
3 MONTHS	6-9/16	6-1/4	DOWN 5/16

6 MONTHS 7-5/8 7-1/4 DOWN 3/8

11. LOCAL AUTHORITY DEPOSIT RATES:

	5/8	5/15	CHANGE
1 MONTH	9-1/4	10-5/8	UP 1-3/8
3 MONTHS	9-3/16	11	UP 1-13/16
6 MONTHS	10-1/16	11-7/16	UP 1-3/8

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 07499 02 OF 02 161918Z

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10 PERCENT ON FRIDAY, MAY 16, 1975.

13. RETAIL PRICES. THE RETAIL PRICE INDEX NUMBER FOR APRIL, RELEASED LATE FRIDAY, MAY 16, SHOWS A RISE OVER MARCH OF 3.9 PERCENT. THE INDEX NUMBER FOR APRIL IS 129.1 THE MARCH FIGURE WAS 124.3 (JANUARY 1974 EQUALS 100). OVER THE PAST 12 MONTHS, THE RPI HAS NOW RISEN BY 21.7 PERCENT, AND OVER THE LAST 3 MONTHS, THE RISE IS 7.5 PERCENT OR 30 PERCENT AT AN ANNUAL RATE. HOWEVER, SOME OF THE APRIL INCREASE IS UNDOUBTEDLY DUE TO THE RISE IN EXCISE TAXES STEMMING FROM THE APRIL 15 BUDGET.

RICHARDSON

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, ECONOMIC DEVELOPMENT, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON07499
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750173-0710
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750545/aaaabotg.tel
Line Count: 251
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2003 by SilvaL0>; APPROVED <10 FEB 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 16 BEGIN SUMMARY: THE CONTINUED WEAKENING TRENDS IN THE
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006